

REQUEST FOR APPROVAL OF COMMUNITIZATION AGREEMENT

Klabzuba Oil & Gas Inc.
Lexington Place
930 West 1st Street
Ft. Worth TX 76102

Township 36 North, Range 15 East

Section 22: E½

Section 23: W½

640.00 Acres

Hill County

State Tract

Section 22: NE¼

Common Schools Trust = 100%

Klabzuba Oil & Gas Inc. has filed a request with the Department for the approval of a communitization agreement to communitize State owned acreage to permit development in conformity with regulations of the Montana Board of Oil and Gas Conservation Commission (BOGC).

A communitization agreement brings together small tracts sufficient for the granting of a well permit under applicable spacing rules. Communitization agreements are not formed until after a well has been drilled and proven to be productive. The communitization agreement provides for distribution of royalties and must be approved and signed by the Department to be effective. Communitization is important in the prevention of drilling of unnecessary and uneconomic wells which would result in physical and economic waste.

The State 22-8-36-15B well, which is an Eagle formation gas well, was drilled in the NE¼ of Section 22. This statewide spacing unit has a total of 640.00 acres. The Department owns 160 acres of the 640.00 mineral acres in the spacing unit that will be communitized. All the mineral owners in the spacing unit are currently sharing in the royalty from this well. The Communitization Agreement includes only the Eagle formation in Sections 22 & 23.

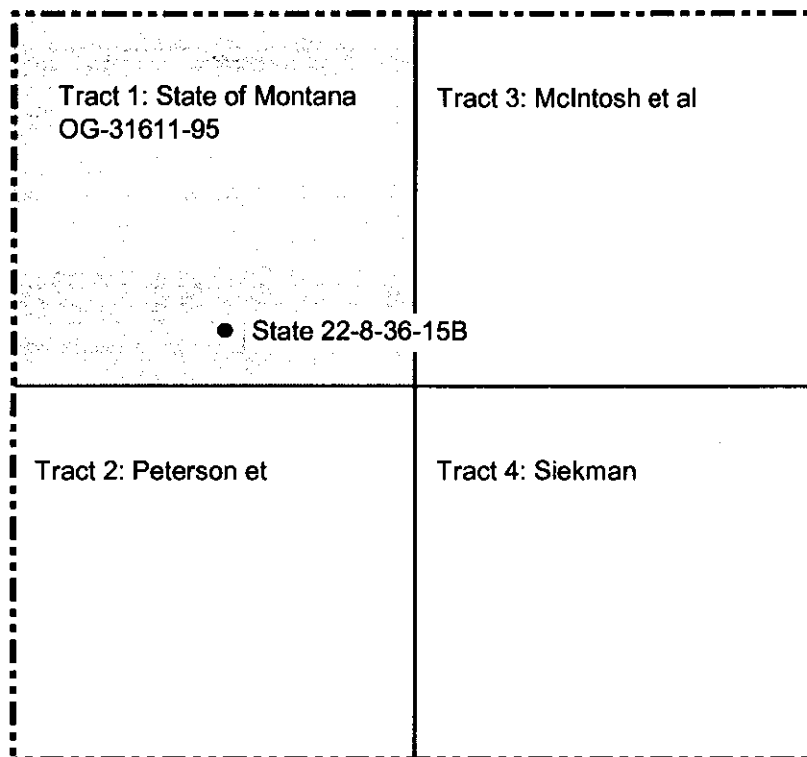
The Department's tract comprises 25% of the communitized area. The communitized production will be allocated to each tract based upon the relationship of its acreage to the total acreage within the communitized area. The Department will consequently receive 3.125% of all gas production (12.5% royalty rate x 25% tract participation).

The Communitization Agreement will allow the State to continue to receive its proper share of production from the spacing unit. Therefore, the Director recommends approval of this Communitization Agreement.

Township 36 North, Range 15 East

Section 22

Section 23



Recapitulation

Tract No.	Type	Acres	Tract Participation	Royalty %	Owners Interest Decimal
1	State of Montana OG-31611-95	160.00	25.00%	12.50%	3.125% (gas)
2	Peterson et al	160.00	25.00%	12.50%	3.125%
3	McIntosh et al	160.00	25.00%	12.50%	3.125%
4	Siekman	160.00	25.00%	12.50%	3.125%
Total		640.00	100.00%		

* Klabzuba Oil and Gas is the operator of the communitized area.